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1920

Economic Conditions Governmental Finance United States Securities

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General Business Conditions.

THE most notable fact in the business situation in the first month of the new year has been the maintenance of trade activity and of the demand for money, without the relaxation which usually follows the turn of the year. Payments through the banks, as shown by the reports to the Federal Reserve Board have been in about the same volume as in December, although a moderate reduction in the volume of Federal Reserve notes in circulation indicates some falling-off in retail trade.

The jobbing centers report buying on a large scale, with general confidence in the maintenance of existing prices or advances therefrom. Textiles have been very strong, but in the latter part of the month some weakness was noticeable in cotton goods, with greater willingness on the part of producers to sell ahead.

Woolen goods for fall delivery will be apportioned to customers on the basis of past patronage, which is a situation which virtually precludes controversy over prices. Outside of this distribution there will be some competitive bidding.

The iron and steel situation is tight, with the United States Steel Corporation adhering generally to the scale of prices made last spring, but early deliveries command premiums in the open market. The strike has been officially declared off by the leaders, who had insisted to the last moment that they were winning. There is no occasion for congratulation anywhere over the strike, except in the fact that the great body of American-born workers refused to have anything to do with it. The stoppage cost a great deal of money to the workers, the employers and the public. It came at a most inopportune time, with the whole world needing iron and steel, and has been a lamentable factor in retarding industrial recovery everywhere.

Wages and Prices.

A state of under-production exists all around the industrial circle, due largely to labor discontent, and the effect is to make the cost of living higher and cause more discontent. There is much complaint from employers that higher per diem wages and a shorter day are accompanied by

reduced production per hour. A widespread, persistent, well-financed campaign of propaganda is being carried on to instill suspicion and discontent among the workers. Wage increases of course accomplish nothing in the face of diminishing production. An actual scarcity of necessary goods exists the world over today, which means that the average consumption per individual must be less. It follows that the person who insists at this time upon having as much for consumption as in normal times is insisting upon more than his share of the existing supply. It is something more than a question between employers and employed; it is a question of fair distribution of the consumable goods. The whole argument that wages must be advanced to cover the rising costs of living, although plausible, is fallacious, because it assumes that each individual is entitled to have as much as though there was a full supply. The effect of raising wages under such conditions is to increase the demands upon the limited supply of goods and raise prices. There are two remedies for the situation, and only two, viz.: (1) personal economy: let every person reduce his purchases as much as possible; (2) increased production: let every person do his part in his own way to relieve the existing shortage and get the world back into easy conditions again.

Labor Situation More Quiet.

So far as strikes are concerned the general situation has been better since the settlement of the coal strike. No large bodies of men are out at the present time, and there is reason to hope that an appreciation of the common interest in stable conditions is influencing the leaders to more conservative and constructive policies.

The head of the organization of coal miners has given out a statement explaining that the demand of that organization for a thirty-hour week was intended as a demand for a minimum instead of a maximum of working time. In other words, the miners wanted to be assured of work enough to afford them fair earnings. He stated that the miners had averaged only about \$75 per month during the past year. It is generally agreed that there has been too much seasonal unemployment in the mining industry. It is wasteful and

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harmful in many ways to have tens of thousands of miners idle throughout most of the summer months waiting for an opportunity to work in the fall and winter. Operators have claimed that this situation is due to competitive conditions in the industry, which cannot be remedied without agreements which would be in violation of the anti-trust laws. In other words, it is one of the incidental and unintentional results of well-meant legislation for the regulation of business. It is to be hoped that the commission now having the coal industry under consideration will find a way to remedy this fundamental economic condition, so that the miners will have an opportunity to obtain full time and good earnings without increasing the cost of coal to consumers.

In this connection it may be not out of place to say that in view of the great demand for labor on the farms which is known to have existed last summer, it seems a little strange that the coal miners who are located in the states where agriculture is a leading industry did not solve this problem of unemployment for themselves. In such states as Ohio, Indiana, Iowa, Missouri and Kansas it is quite certain that coal miners would not have to go far to find work in the summer season. This comment is suggested by the following paragraph taken from the columns of the Des Moines Register:

"One of the most serious problems that confronts farmers and stockmen today is a shortage of competent help," said a well-known stockman at Ames recently. "Farm labor has become so high and is of such questionable quality that the crop acreage will have to be reduced in many sections or the working hours lengthened. Even married couples are no longer dependable. One of my neighbors employed a young married man a short time ago, paying him \$75 a month straight through the year, provided a five-room house with several little conveniences, gave him the use of a cow and a couple dozen hens, and offered him a good sized garden plot and all the fruit he and his wife could use during the winter. The couple moved back to town after the first month."

It is a fair question whether a coal miner living amid these conditions is justified in claiming wages enough in the winter season to enable him to live without working at anything throughout the summer. Most of the men who are now employers of labor were taught in their youth that if they could not find work of one kind they must look for another kind. Does responsibility rest upon the public to provide each individual with work of a particular kind? A moderate transfer of labor from coal-mining to agriculture or other occupations would compel a readjustment of conditions in the coal industry in the natural manner.

Farmers Dissatisfied.

While agitation for shorter hours and more pay continues in the industrial field, a state of dissatisfaction exists among the farmers over the decline which has taken place since last summer in some of their products. The January live stock report issued by Bartlett-Frazier, a Chicago com-

mission house says that "reports are almost unanimous in their showing of dissatisfaction among hog raisers and a disposition to sell brood sows and definitely decrease breeding for a spring pig crop. The losses to feeders of both hogs and cattle during the past six months have been very severe, and the feeding industry is going through a period of discouragement."

The grievance of the farmers is that the prices of what they have to buy do not go down with the prices of what they have to sell, and this complaint is commended to the attention of all who think that the prices of manufactured goods can be maintained after the prices of farm products have generally declined. The purchasing power of the farming population is in the prices of farm products, and as they decline they will pull down the whole wage scale and price level.

Labor leaders may say that present wages will never be reduced, popular opinion may theoretically approve and employers may assent, but if the purchasing power of the great interior districts of this country declines those districts will buy fewer goods unless those goods come down correspondingly. The prosperity of the farming districts has been a very large factor in the demand for labor in the manufacturing cities. So long as employers are able to add wage-increases to the prices of their products they will grant the latter, but employment and wages depend at last upon the purchasing power of the consuming public. The entire price and wage situation might change rapidly.

Export Trade Threatened.

One of the influences which may bring about a change is the foreign trade situation. Elsewhere we give the figures by months for the exports of meats and dairy products for eleven months of 1919, and invite attention to the decline of pork products in the later months. It is a noteworthy fact also that shipments of butter are being received at New York from Denmark. The premium on exchange is a factor in this movement. Exports of cotton have been heavy during the past month, and wheat continues to go out in good quantities, but there are signs that other exports have been falling off. Ships are said to be going to Europe without full cargoes. The decline of the foreign exchanges continues, which is ominous for sales. It must not be thought that this situation can be met by willingness on the part of foreign buyers to pay the high rates. The exchange must be bought in this country, and the declining rates indicate that the market is over-loaded. This one-sided trade requires that more and more credit must be provided as the weeks pass. This is the weak point in the business situation, and gives careful observers a feeling of uneasiness. They do not see how exports can go on at the present rate and have misgivings that a heavy decline may have a depressing effect upon domestic prices and general industry.

Railroad Service Inadequate.

Business is being seriously embarrassed by a shortage of railroad cars. While the Conference Committee representing the two houses of Congress is deadlocked over the problem of affording adequate protection to capital investments in railroads, production is being interrupted and the public is suffering losses that amount to vastly more than it would cost to settle the question of compensation to capital on the most liberal basis proposed. Good railroad service would be much cheaper at any terms under discussion than poor service.

The Money Market.

The long-expected advance in discount rates has been made by the Federal reserve banks, raising the rate on commercial paper for the first time. The advance to 6 per cent removes the margin of profit upon rediscounts to banks in states where that is the legal rate of interest. That of course will not be in all instances a bar to accommodations; the bankers of the country will want to meet the necessities of their customers, but the public will have to understand that this advance has been made for the purpose of holding loan expansion in check, and general co-operation is expected.

We have repeatedly called attention to the situation which has called for an advance of rates. The last consolidated statement of the Federal reserve banks in September showed total bill holdings of \$2,224,773,000, and the statement of January 2 showed bill holdings of \$2,805,818,000. The Reserve Board delayed action upon commercial borrowing until past the turn of the year, when this class of credits usually shows a natural tendency to liquidation.

The Board has again favored loans secured by government obligations, the rate upon rediscounts secured by government bonds being fixed at $5\frac{1}{2}$ and that upon Treasury certificates at $4\frac{3}{4}$ per cent. Under normal conditions all loans upon securities would bear a higher rate than rediscounts of commercial paper, but the Board evidently desires to avoid further pressure of government bonds upon the market at this time.

As indicated above, this advance of rates affects the earnings of the member banks more than it will directly accomplish a curtailment of credit, but doubtless it will be accepted by the borrowing public as a sign of the times.

The shortage of cars in the west has delayed the movement of grain from the country to the centers, and has kept the member banks of several states in tight condition, but the movement of the grain would only shift the burden for the present. The final liquidation will occur as the season advances and the crop goes into consumption.

This is a time for economy and caution, and for general cooperation to reduce the volume of indebtedness. If attention is directed to the

importance of so doing there will be no lack of funds to handle the really necessary business of the country. A resolute curtailment of unnecessary expenditures and postponement of plans which do not require immediate action will accomplish it. The situation is the reverse of what it was a year ago. The question then was how to provide employment for the wage-earners being released from the army and from war work. Now it is to prevent undue pressure upon the industrial and financial resources of the country. There is reason to believe that a great amount of capital is being wasted in new enterprises which will add nothing to the wealth of the country. A man of high standing and good opportunities for observation a few days ago told the Senate Committee which is considering a bill to regulate the issue of securities, that from \$400,000,000 to \$500,000,000 was invested in flotations within the State of Iowa last year, a large part of which were of doubtful character.

Foreign Trade and the Exchanges.

The figures for the totals of this country's foreign trade in 1919 are now on hand. Imports amounted to \$3,905,000,000 and exports to \$7,922,000,000. For December the figures for imports were \$381,000,000 and exports \$681,000,000.

The figures by countries or grand divisions are not yet available for the entire year, but based upon eleven months they show that we were a creditor on a great scale to Europe and a debtor to South America and to Asia. Of the sum total of nearly \$8,000,000,000 exports, over \$5,000,000,000 went to Europe and we received less than \$800,000,000 in goods from there in return.

On the other hand, we bought \$631,591,000 worth in South America and sold \$411,151,000 worth there, and bought \$928,709,000 in Asia and sold \$640,873,000 worth there, not including silver which is treated as bullion in settlement.

We sent approximately \$175,000,000 worth of silver to Asia in eleven months of the year, with December to be reported. The total amount of silver exported during the same period to the whole world was \$208,426,000.

Unfortunately we are unable to offset our credits in Europe against our debits in Asia and South America, for Europe is likewise debtor to Asia and South America. England in like manner is a creditor to the continent but unable to use her credits there to settle her debits in America.

The Declining Exchanges.

The figures on the trade with Europe show the reason for disquietude concerning the basis of our present prosperity. The balance in our favor is enormous and nobody knows definitely how settlement is being made, or dares venture an opinion as to how long exports can be

maintained at this rate. It is known of course, that the remittances by our foreign-born residents to relatives and friends in Europe are larger than usual, and that the same class is investing considerable amounts in securities and property in the old countries, being induced to do so by the high value of the dollar in the exchanges. It is understood also that American securities which have been held abroad are continually coming home, and that other foreign interests in this country are being liquidated, thus creating offsets. It is true also that the earnings of foreign shipping, especially British, are an important item on the other side. But when all the credits to Europe are summed up the most liberal estimates fall short of balancing the account.

The conclusion is forced that American exporters are granting credit direct and that the public has been absorbing foreign exchange as a speculation, perhaps to an unsuspected extent. However it has been done, there is a certainty that the resources drawn upon are not inexhaustible, and that our foreign business is on a precarious basis. It must have more definite support or exchange rates will go low enough to check the movement. If the decline occurs gradually it may be that no serious harm will be done to domestic industry, but if it should occur suddenly there might be a backing up of domestic products which would have grave consequences.

The exports of greatest importance are farm products, of which we have a surplus running into large values. A rapid decline in prices for these products would affect the purchasing power of a very large part of the population and react upon all industry. But on the other hand, the world's need for these products is so great that the strongest possible reasons will exist for co-operation on the part of Europe and America in financing this movement.

New low records were made during the month by all the principal exchanges. The table of the principal ones is as follows:

	Unit Value	Rate in cents Dec. 29	Rate in cents Jan. 29	Depreciation in %
Canada	1.00	.9100	.9075	9.25
Germany	2382	.0210	.0135	94.4
Italy	1930	.0763	.0649	66.4
Belgium	1930	.0962	.0727	62.4
France	1930	.0939	.0760	60.7
England	4.8665	3.8000	3.5300	27.4
Switzerland	1930	.1802	.1786	7.5
Holland	4020	.3750	.3875	3.6
Denmark	2680	.1925	.1650	38.4
Norway	2680	.2050	.1780	33.6
Sweden	2680	.2150	.1970	26.5
Spain	1930	.1925	.1850	4.2
Argentina	9648	.9800	.9800	1.6*
Japan	4985	.5025	.4875	2.2

* Premium. ** About Par.

Foreign Holdings of U. S. Steel Stocks.

The movement of American corporation stocks from Europe to this country since the beginning of the war is illustrated in the case

of the United States Steel Corporation. On March 31, 1914, 1,285,636 shares of the common stock, or 25.29 per cent of the entire issue, and 312,311 shares of the preferred stock, or 8.67 per cent of the entire issue were held abroad. On December 31, 1918, 484,190 shares of the common, or 9.52 per cent of the issue, and 140,077 shares of the preferred, or 3.88 per cent of issue, were held abroad; and on December 31, 1919 368,895 shares of common, or 7.26 per cent of the issue, and 138,566 shares of preferred, or 3.84 per cent of the issue were held abroad. It appears that 115,305 shares of common, of the par value of \$11,530,500, and 1,500 shares of preferred, of the par value of \$151,100 were sent back during the past year. There still is more than \$50,000,000 worth, market value, in foreign hands, and the inducement to sell in America increases with every increase of the premium on the dollar over other currencies. This showing suggests that there must be a round sum of American securities still in the tin boxes of Europe.

Gold Movements.

All of the South African gold arriving in London is sold at a premium, most of it being taken to supply remittances to India. That shows how London stands in relation to India.

The production of gold in the United States in the year 1919 is officially estimated by the bureau of the Mint and Geological Survey at \$58,488,000, a decline of about \$10,000,000 from that of 1918. The sales of gold bars by the United States office at New York in 1919 for use in the arts amounted to \$60,062,838 of which \$251,337 went to Canada. The total consumption of gold in the arts probably was as much as \$65,000,000. This is the first time since the discovery of gold in California that the consumption of gold has exceeded production in this country.

The Canadian government authorized the exportation of \$10,000,000 of gold to the United States in December and \$10,000,000 more in January, for the purpose of steadying the exchanges, and possibly to facilitate some of its own remittances.

An offering of \$25,000,000 of Belgian notes, of which the particulars are given elsewhere, was a notable feature of the month, as they were very well received. Salesmen reported that popular feeling on behalf of Belgium and a disposition to render practical aid was a noticeable factor in the readiness with which these notes were taken.

The European Problem.

The developments of the last month give encouragement that the business world is coming to an understanding of the critical state of society in Europe, and arousing to the

stupendous task of aiding the prostrate peoples of the continent to find subsistence in the months immediately to come and to eventually reconstruct their shattered industries and become self-supporting again.

On January 10th the Secretary of the Treasury addressed a letter to the Chairman of the Ways and Means Committee of the House of Representatives, recommending that the United States Grain Corporation be empowered to purchase, sell and deliver \$150,000,000 worth of food and relief supplies on credit to Austria, Poland and in Armenia, for the benefit of populations threatened with starvation. The Secretary intimated that more might be required, in which event he will communicate further. He stated that Great Britain had offered to join the United States in giving relief to Austria, and probably would provide the shipping required. In a supplemental statement before the Committee, Assistant-Secretary Davis stated that Great Britain, France and Italy had already lent Austria \$48,000,000.

Call for an International Conference.

On January 15th there appeared a notable communication signed by several hundred leading bankers, men of affairs and publicists, addressed in this country to the United States Government, the United States Chamber of Commerce and the Reparations Commission, and addressed in other countries to the respective governments and the Reparations Commission. The communication recognizes that the existing state of distress and industrial prostration in Europe is a matter which concerns society everywhere, and asks for the calling of a conference to meet at the earliest practicable date, to consider what action may be jointly taken or recommended to aid in the restoration of normal economic conditions. It puts to the fore the necessity for every country to forthwith put into effect a scheme of taxation which will enable it to meet governmental expenditures without further additions to the outstanding paper currency. No country, it plainly says, can be considered worthy of credit which will not do this.

It says that evidently Germany and Austria must bear a heavier burden than the countries which were victorious in the war, but that care will have to be taken "that the burden does not exceed the measure of the highest practicable taxation, and that it does not destroy the power of production, which forms the very source of effective taxation."

The statement continues in terms at once so enlightened, practical and convincing that we give the remainder verbatim:

For the sake of their creditors and for the sake of the world, whose future social and economical development is involved, Germany and Austria must not be rendered bankrupt. If, for instance, upon close ex-

amination, the Commission des Reparations finds that, even with the most drastic plan of taxation of property, income, trade and consumption, the sums that these countries will be able to contribute immediately towards the current expenses of their creditors will not reach the obligations now stipulated, then the commission might be expected to take the view that the scope of the annual contribution must be brought within the limits within which solvency can be preserved, even though it might be necessary for that purpose to extend the period of instalments. The load of the burden and the period during which it is to be borne must not, however, exceed certain bounds; it must not bring about so drastic a lowering of the standard of living that a willingness to pay a just debt is converted into a spirit of despair and revolt.

Grave Situation.

"It is also true that amongst the victorious countries there are some whose economic condition is exceedingly grave and which will have to reach the limits of their taxing powers. It appears, therefore, to the undersigned, that the position of these countries, too, should be examined from the same point of view of keeping taxation within the power of endurance, and within a scope that will not be conducive to financial chaos and social unrest.

"When once the expenditure of the various European countries has been brought within their taxable capacity, (which should be a first condition of granting them further assistance), and when the burdens of indebtedness, as between the different nations, have been brought within the limits of endurance, the problem arises as to how these countries are to be furnished with the working capital necessary for them to purchase the imports required for restarting the circle of exchange, to restore their productivity, and to reorganize their currencies.

"The signatories submit that, while much can be done through normal banking channels, the working capital needed is too large in amount and is required too quickly for such channels to be adequate. They are of opinion therefore that a more comprehensive scheme is necessary. It is not a question of affording aid only to a single country, or even a single group of countries which were allied in the war. The interests of the whole of Europe and indeed of the whole world are at stake.

"It is not our intention to suggest in detail the method by which such international co-operation in the grant of credit may be secured. But we allow ourselves the following observations:

"1. The greater part of the funds must necessarily be supplied by those countries, where the trade balance and the exchanges are favorable.

"2. Long term foreign credit, such as is here contemplated, is only desirable in so far as it is absolutely necessary to restore productive processes. It is not a substitute for those efforts and sacrifices on the part of each country, by which alone they can solve their internal problem. It is only by the real economic conditions pressing severely, as they must, on the individual that equilibrium can be restored.

"3. For this reason, and also because of the great demands on capital for their own internal purposes in the lending countries themselves, the credit supplied should be reduced to a minimum absolutely necessary.

"4. Assistance should as far as possible be given in a form which leaves national and international trade free from the restrictive control of governments.

Development of Trade.

"5. Any scheme should encourage to the greatest extent possible the supply of credit and the development of trade through normal channels.

"6. In so far as it proves possible to issue loans to the public in the lending countries, these loans must be on such terms as will attract the real savings of the individual; otherwise inflation would be increased.

"7. The borrowing countries would have to provide the best obtainable security. For this purpose it should be agreed that:

"(a) Such loans should rank in front of all other indebtedness whatsoever whether internal debt, reparation payments or interallied governmental debt.

"(b) Special security should be set aside by the borrowing countries as a guarantee for the payment of interest and amortization, the character of such security varying perhaps from country to country, but including in the case of Germany and the new States the assignment of import and export duties payable on a gold basis, and in the case of States entitled to receipts from Germany, a first charge on such receipts.

"The outlook at present is dark. No greater task is before us now than to devise means by which some measure of hopefulness will re-enter the minds of the masses. The re-establishment of a willingness to work and to save, of incentives to the highest individual effort and of opportunities for every one to enjoy a reasonable share of the fruit of his exertions must be the aim toward which the best minds in all countries should co-operate. Only if we recognize that the time has now come when all countries must help one another can we hope to bring about an atmosphere in which we can look forward to the restoration of normal conditions and to the end of our present evils.

"In conclusion, the signatories desire to reiterate their conviction as to the very grave urgency of these questions in point of time. Every month which passes will aggravate the problem and render its eventual solution increasingly difficult. All the information at their disposal convinces them that very critical days for Europe are now imminent and that no time must be lost if catastrophes are to be averted.

This statement and call for a conference lays the groundwork for international cooperation in the reconstruction of industrial and social order in Europe. It sketches clearly the outlines of the necessary program, and it is significant that there should be practical unanimity among the distinguished leaders of business of all countries upon the general principles to be followed. The sentiments uttered and the aims subscribed to show the constructive purposes which dominate the international business community.

It will be a great thing to have the business forces of the world set themselves to the task of examining the peace treaty, readjusting and supplementing its provisions to promote general prosperity, and reorganizing the productive powers of society.

Views of Sir George Paish.

Sir George Paish, the well-known English economist, has been in this country during the past month, and his interviews and addresses upon the European situation have occasioned much comment. For the most part this comment seems to have been based upon misunderstanding of his mission and proposals.

His general representation of the European situation and the need for outside help is quite supported by the statements contained in the call for an international conference, of which account is given above. The remedies proposed in this call, so far as they go in detail, are the same as suggested by him. He has advocated assistance only to alleviate immediate

suffering and to aid the populations in becoming self-supporting again, under strict terms and international supervision. He has positively stated that the borrowing countries should be required to balance their budgets, and that no loans should be made to cover governmental expenses. His proposals have contemplated nothing but loans to be expended in this country for food, raw materials and machinery, with the distribution of these safe-guarded as effectually as possible.

His idea of joint international obligations was a suggestion intended to afford greater security to the United States, which in the nature of things must be the principal creditor, because it is the principal source of supply. Nowhere else in the world can the things that are needed for Europe be found. America must furnish them or the whole scheme of succoring Europe and reestablishing industry there will have to be abandoned. With this as the premise, Sir George laid down the proposition that instead of granting little dabs of relief here and there over Europe, without doing enough to restore production in any comprehensive way, America could better afford to do enough to secure European society against anarchy, and so make its loans safe; moreover that in doing this America would be entitled to have joint guarantees from all Europe, including Great Britain. One idea behind this suggestion is that all of Europe is involved together, and that help which might be sufficient for one country if it alone was affected may fail unless other countries are aided also. The same idea is expressed in the call for an international conference in the following language:

"It is not a question of affording aid only to a single group of countries which were allied in the war. The interests of the whole of Europe, and indeed of the whole world are at stake.

"It is not our intention to suggest in detail the method by which such international co-operation may be obtained."

It is well undoubtedly that the call stops short of suggesting in detail how the required international cooperation shall be obtained. That is a matter to be dealt with in the conference, but it is clear that whatever the method of settlement may be the bulk of the things to be supplied must come from America. What will a conference do with reference to this fact? Will it simply pass resolutions calling upon America to supply the needed commodities to the several countries on credit? This is the situation to which Sir George was addressing himself when he suggested a joint guaranty, evidenced by bonds made free of taxation in every country party to the agreement, and of course, for mutual protections secured as fully as may be. In such an arrangement the United States as a party would bear its proportion of the defaults with others, but it would have all Europe interested with it in any default.

It is easy to say that the United States had better keep out of such an arrangement and that the United States had better keep out of Europe, but the distinguished signatories of the above call believe that the United States cannot ignore the needs of Europe. It is not necessary to endorse the Paish proposal; perhaps the conference will offer a better one, but it is not preposterous.

The amount of credit which Europe will require is placed much higher by Sir George than by any other estimate but he has named figures for a period of five years, and based his calculations upon the trade balance of the last year and the interest obligations which will be running, but which Europe will not be able to meet until it has recovered the power to export goods. There is room for difference of opinion in regard to the rapidity with which Europe can recover, but interest centers upon what needs to be done at once, the means by which it can be done and the safeguards required for the efforts. There is no disagreement as to the desirability of such a conference as has been called. Nothing that Sir George Paish has said has afforded any basis for the report that he represented the British government or sought a loan for Great Britain.

The Situation in Germany.

We have received from a very competent source in Germany a carefully prepared summary of the financial situation of the German government and central bank, showing the outstanding funded and floating debt, total paper money issues outstanding, and other obligations, supplemented by comments which present the views of a trained financier and economist. The paper is more comprehensive and complete than anything we have seen published outside of Germany, and therefore we give it in full.

The par value of the mark, in which all figures are given, is 23.8 cents, United States money.

I.

From the time of its foundation until the outbreak of the European war the German Empire had not known any serious financial difficulties. The Federal loan raised in connection with the war of 1870/71 was paid off by 1875. At the end of that year the whole of the Empire's debt amounted, apart from minor items, to only about 120 million marks, exclusively in paper money, (Reichskassenscheine) to the issue of which the country had been empowered by Act of Parliament of April 30th. 1874, with the purpose of withdrawing the paper money of the various Federal States, circulating until then. During the following ten years smaller loans were repeatedly raised. Yet at the end of 1886 the whole of the interest paying national debt was not more than 446 million marks. It is only with the beginning of the nineties that the increase of the national debt assumes larger proportions. In 1890 it exceeded the first, in 1895 the second and ten years later the third billion.

The ever increasing financial demands—particularly for the army and navy—made it necessary to raise further big loans in the first decade of the current century.

At the end of 1910 the debt of the Empire had risen to over 4.5 billions, while towards the beginning of 1914 it had not come higher than 5 billions amongst which the floating debts were included. With this comparatively small debt the country entered the world war. About 180 millions had to be raised annually for the interest on the debt and 160 millions for its amortization, meaning a total of nearly 250 millions per annum.

At the outbreak of the war the debts of the Federal States amounted to about 17.7 billions, those of the Communal bodies (communities, provinces, etc.) being about 11.9 billions. Therefore, the national debt inclusive of that of the Federal States and Communal bodies totalled about 34.5 billion marks.

In order to form a right opinion of the changes which have taken place in Germany's financial position under the influence of the war one ought to keep in mind the form adopted for covering the expenses of the war. In view of the assumption that the war would only last a short time, the raising of loans was considered the best way of meeting the financial requirements incidental to warfare. Hence by Act of Parliament of August 4th, 1914, war estimates to the amount of 5 billion marks were passed in the first instance, and the same method was adopted as the occasion arose. In this way a total of 139 billion marks were provided. A further credit of 15 billions was proposed by the Government at the beginning of November 1918, but could not be passed by the Reichstag owing to the revolutionary movement.

The credits were used up by floating loans. Requirements keeping within the limits of the estimates passed by Parliament, but which could not be covered by war loans, were met by issuing short term treasury bills.

The various loans sufficed to cover the monetary requirements until the end of 1916. Until that time the floating debt had kept within comparatively narrow bounds. The debts incurred in this manner were regularly paid back from the moneys raised by the next loan. Only during the latter courses of the war floating debts were contracted to an ever increasing extent. Within the compass of the total war debt the floating debt accordingly assumed growing importance. Of the whole credit granted, finally amounting as mentioned above, to a total of 139 billion marks, more than 40 billions had been raised by means of short term treasury bills.

As is apparent from the table hereafter this sum in the meantime has risen to 80 billion marks. There are, moreover, the floating debts of the Federal States to be considered, which amount to 22.5 billion marks.

The total debts being distributed as follows:

The German Empire:		in billion marks:	
Consolidated debt	90		
Floating debt	80		170
The Federal States:			
Consolidated debt	17.5		
Floating debt	12.5		30
Communal Bodies:			
Consolidated debt	12.5		
Floating debt	10.		22.5
			222.5

So we see that the public debt of Germany since the beginning of the war has risen from 34.5 billions to 222.5 billion marks. Annually ten billion marks have to be raised merely to pay the interest on this debt. Moreover, there are the pensions for the men disabled in the war and for the next of kin of the killed, items which will for a long period require an amount of about 4.4 billions annually.

The redemption of the floating debt, having the closest possible connection with Germany's currency and credit system, forms one of the most urgent financial

needs. In order to understand this connection, due attention must be paid to the change which has taken place in the German monetary system.

II.

Prior to the outbreak of the war Germany had a thoroughly well organized monetary system. On July 9th, 1871, Germany was able to pass a law relating to the introduction of the gold standard, which was carried into effect and kept up by a far-sighted gold—and discount—policy of the Reichsbank.

The old silver-thaler (three mark coin), remaining legal tender, was gradually withdrawn from circulation. When that process had been finished, the German Empire belonged to the few countries with a genuine gold standard. The German rate of exchange consequently, always kept near the gold par.

The standard was secured by a considerable stock of gold which the Reichsbank had accumulated in the course of decades as a cover for its circulation of notes. Owing to this policy the gold reserve amounted by July 23rd, 1914, to 1536 million marks. Taking the average for a whole year, half of the Reichsbank notes in circulation were approximately covered by gold, the proportion of gold to notes often reaching and in the quieter months exceeding three-quarters of the entire circulation. In addition to the stock kept by the Reichsbank the amount of gold coins in circulation may at the time of the outbreak of the war be estimated at about 2.5 billion marks. Under such conditions the German gold standard enjoyed general confidence, not only at home but all over the world.

Towards the end of June, 1914, the state of the Reichsbank presented a perfectly normal aspect. On June 23rd, 1914, the total circulation of notes amounted to 1805 million marks, which were covered by 1371 million marks of gold and 345 million marks of silver coins. Therefore, the metallic reserve of the circulation was about 95%. Among the other assets figured bills of exchange, checks and advances on securities with a total of 810 million marks. Furthermore, the Reichsbank owned discounted treasury bills to the amount of 263 million marks.

These favorable conditions naturally changed during the war. After receiving at the outbreak of the war 205 million marks in gold from the war fund, and the gold coins in circulation having gradually flown into its coffers, the Reichsbank on October 31st, 1918 had a gold reserve of 2550 million marks at its disposal. From the beginning of the war onward its visible stock of gold had increased by approximately 1200 million marks. As a matter of fact a considerably larger amount in gold coins has found its way into the Reichsbank, which has been obliged, however, to hand over a large sum of gold returning from circulation to neutral countries and partly to the German allies as well.

In conformity with the conditions of the armistice and in order to secure food supplies from abroad the Reichsbank was, furthermore, compelled to give up 1.4 billion marks of its gold reserve. Thus by the end of September, 1919, the gold reserve of the Reichsbank had been reduced to about 1.1 billion marks, considerably smaller a sum than that which it possessed at the outbreak of the war.

On the other hand, the circulation of banknotes which, as mentioned above, on June 23rd, 1914, amounted to about 1.8 billions had risen to 29.8 billion marks by September 30th, 1919. As a consequence of this extraordinary increase in paper currency the proportion of gold to the issue of banknotes to-day is so small as to be hardly worth mentioning.

The change for the worse in the conditions of the Reichsbank is most closely connected with the increase in the floating debt of Germany. For the Reichsbank has been compelled to take up a considerable part of treasury bills. On September 30th, 1919, the assets, comprising bills of exchange, checks and treasury bills, amounted to about 34 billions of which

2 billions at most are likely to consist in bills of exchange and checks. The remaining amount is, therefore, exclusively composed of treasury bills and accordingly is to be regarded as a floating debt to the Reichsbank.

The loan-office notes (Darlehenskassenscheine) called into existence by law of August 4th, 1914, are likewise closely connected with the national debt. Upon loans granted, the loan-office (Darlehenskassen) had on September 30th, 1919, put into circulation notes to the amount of 21.3 billions, of which about 9 billion marks were held by the Reichsbank, 120 million marks being used for other purposes. The remaining 12.2 billions were in circulation. Hence the total of the paper currency issued by the Reichsbank and the loan-offices amounted to about 42 billion marks by the end of September, 1919.

This, however, does not cover yet the total of Germany's paper money being in circulation at present. In addition there are the above mentioned "Reichskassenscheine" the total amount of which was increased to 360 millions during the course of the war, as well as the emergency paper money, circulated by communities and other public bodies. On the whole about 43 billion marks of paper money are likely to be in circulation at present.

The unfavorable change in the German monetary system is strikingly demonstrated by the depreciation of the Reichsmark, which for the time being, reached its lowest level about the middle of September, 1919, when it was valued at 14 pfennigs on the average.

Apart from the fact that the great circulation of paper money has to be regarded as very unfavorable in itself, it has to be noted that contrary to former times a considerable part of the paper currency must be looked upon as tied up. Whereas in times of peace the banknotes and the Reichskassenscheine constituted only a portion of the circulation, conditions have completely changed afterwards. Germany's total circulation may be estimated for the middle of 1914 at approximately 7 billion marks. Of this amount about 2 billions were banknotes and paper money (Reichskassenscheine), 3.7 billions being gold coins and about 1.2 billions silver coins.* To-day the circulation almost exclusively consists in paper. Accordingly a considerable part of the present paper currency serves as a substitute for the metal currency that has been withdrawn from circulation. Moreover, contrary to pre-war times, a very large part of the paper money issued in Germany has fluxed into foreign channels. Belgium alone claims 5.6 billion marks for the paper money withdrawn there from circulation, whilst the amount of German paper currency kept by France is estimated at approximately 4 billion marks. In addition there are huge amounts accumulated in Switzerland, Holland and Scandinavia. Considerable sums have also recently gone to Spain and to North and South America. It is highly probable, therefore, that of the total of 42 billion marks of paper money issued, 15 billion marks are kept outside Germany. To the latter amount must be added another 5 billion marks which are hoarded up by the population. The paper money actually circulating in Germany, therefore, probably does not exceed 22 billion marks.

This outline does not intend to suggest that German financial conditions ought to be regarded as being more favorable than appears warranted in view of the great amount of paper money issued. But under present conditions it may be expected that a considerable portion of the paper money, now passed into foreign hands, is tied up by speculation and that the sums in Belgian and French possession may perhaps be converted into a consolidated debt by means of loans. Hence, a reorganization of the German monetary system seems, after all, easier than the amount of paper money issued might lead to assume. It goes without

*On June 23rd, 1914, of the metallic stock 1536 million marks in gold (bullion and coin) and 345 million marks in silver were kept by the Reichsbank.

saying that such a reorganization would not solve the financial problem it is also necessary to dwell upon extent. Besides an improvement in the state of the Reichsbank may be expected from the decrease of Germany's floating debt. This decrease is to be brought about by the proposed large levy on property (Reichsnotopfor), and to some extent by the issue of the premium loan, now being offered.

III.

In order to get a proper idea of the magnitude of the financial problem it is also necessary to dwell upon the revenue and expenses as provided for in the budget. Nothing definite, however, can be said at present on this subject. While it is possible to estimate with some accuracy a few items all the other figures must be considered as entirely problematic under prevailing circumstances.

The compilation made in the following table should be regarded as an indication only of the scope and bulk of the financial needs of Germany and of the sources out of which the receipts are being expected to flow.

A. EXPENSES:

in billion marks:

Sinking fund	10.—
Death and disablement fund.....	4.3
Administration	1.7
Maintenance of the defence forces.....	1.5
Maintenance of the army of occupation..	1.2*
Compensation to officers	0.2
Requirements of the Federal States and Communities	6.5
	<hr/> 25.4

B. RECEIPTS:

Current receipts derived from taxes and duties made up according to the figures of the last year of peace.....	18
Estimated returns of 23 bills, submitted to Parliament 1916-19 (coal, wine, brandy, and traffic-tax, etc.).....	5.9
Receipts from the Reichsbank and the loan-offices (Darlehnskassen)	1.—
Turnover tax	3.—
Interest saved or receipts of interest accruing from the levying of property....	2.5
Revenue taxes	4.5
Tax collections of the Federal States and Communities	3.—
Income taxes of the State and other taxes under consideration	3.1
	<hr/> 24.8

Not considering the obligations arising from the conditions of peace (except the expenses for the maintenance of the army of occupation) the total receipts according to the above statement appear to be 600 million marks less than the expenses. However, the fact must not be overlooked that the draft of this budget, as indicated above, is only made hypothetically and that it is impossible to foresee, which proportion of the estimates will be reached under prevailing conditions, inasmuch as the "flight of capital" to foreign countries going on since the revolution broke out will probably also influence Germany's taxing power in a very unfavorable sense.

In judging the financial position of Germany, the obligations towards allied nations, occupied territories and neutral countries, incurred since the war, have also to be considered; as, for instance, the obligations arising from the issue of notes in Turkey in connection with the handing over of German treasury bills. These treasury bills, now being in the hands of the Dette

*The obligations arising from the conditions of peace have for the present only been represented by this one item and, moreover, have been very roughly estimated.

Publique, are redeemable in gold within a period of 12 years. The total amount of this obligation alone largely exceeds the present gold reserve of the Reichsbank. On the other hand in accordance with the conditions of peace Germany's claim against Turkey had to be transferred to the Allies. (Art. 261.) Similar obligations arise from the circulation of paper money in countries which were occupied. Germany, for instance, has guaranteed the redemption of almost 760 million marks of loan-office-notes, circulated by the Darlehnskassen Ost. Furthermore Germany has pledged herself to redeem at par in marks about 800 millions of Polish loan-office notes issued during the German administration.

Another obligation exists towards Roumania out of the circulation of lei-notes, issued by the Banca Generala Romana, and out of a balance due to the Banca Nationala Romana by the Reichsbank. The total of this debt may be put down at about 1.3 billion marks. Germany is furthermore indebted to the Ukraine through the circulation of paper money to the extent of 400 million marks. The same applies to the above mentioned outflow of German paper money into Belgium and France, as well as to the short term credits opened to Germany in various forms by neutral countries. For all these obligations Germany or the Reichsbank, on which the country's monetary system rests, are ultimately responsible.

IV.

A strict examination of the economic position of Germany is bound to take also into account the financial obligations imposed upon the country by the conditions of peace. Twenty billion marks in gold have to be paid until May 1921. Of this amount the value of goods delivered by Germany in conformity with the conditions of the armistice must be deducted, however, as well as the values of the work of reconstruction, as provided for by the peace treaty.

The following items will go to Germany's credit:

- Supplies delivered under the terms of the armistice.
- Mercantile fleet.
- Pre-war debts due to Germany on account of foreign commerce and trade, less the amount owed by Germany herself.
- Liquidated property.
- Debts of Germany's former allies, ceded to allies and associated powers.
- Claims arising from the taking over of the State debt of the countries to be ceded (Art. 255-57 of the conditions of peace.)
- Value of coal to be furnished by Germany.

On the other hand such food stuffs and raw materials as may in the opinion of her principal creditors, render Germany capable of reparation, are charged to her account. The amount of the first instalment of the indemnity of war cannot be estimated at present. It will have to be fixed in due time by the Commission of Reparation.

By a further proviso of the conditions of peace Germany is compelled to hand over to the allies gold bearer bonds to the value of 40 billion marks, on which an interest of 2½% has to be paid from 1921 to 1926 and of 5% from 1926 onward. These bonds are to be redeemed in 30 years from the latter date at the rate of 1%. A second series of gold bearer bonds to the amount of 40 billion marks has been provided for, in case the Commission of Reparation should feel convinced that Germany can afford to pay the interest on and the redemption of such an additional charge. For the present this latter provision might be regarded as a matter of secondary importance. The war debt payable to Belgium, however, requires immediate attention. The exact amount has not yet been fixed, but the sum in question is likely to be about 10 billion marks.

These various financial obligations will very heavily weigh on Germany as she is at the same time compelled to deliver a great quantity of goods without any com-

pensation, and as her economic strength and taxing power are being greatly reduced by the loss of agricultural and industrial territory. This better than anything else reveals the extent of the financial problem and the difficulties of its solution.

V.

It has to be borne in mind, however, that the German people still possess certain abilities and capacities which will make it fit for great achievements. Moreover, it must be remembered that, although her population severely suffered through the events, having taken place since August 1914, Germany did not completely collapse neither during the war nor under the influence of the revolution. The terror responsible for the destruction of huge values and the breakdown of the entire social order in Russia, could be kept at bay in Germany. This fact is the more noticeable as in Germany the change of system occurred with even greater rapidity than in Russia, where the population for more than a decade had been prepared for a great upheaval. It is true that under the influence of these events a weariness of labor and a general disinclination to work have manifested themselves in Germany, formerly so highly reputed for her laboriousness. This has found a visible expression in many strikes and has put its stamp on the entire economic life of the country. It must, however, be realized that there we have to do with a morbid state of mind, caused by 5 years' malnutrition, which is bound to disappear as soon as the food conditions of the country have been improved. Notwithstanding the continuance of disturbances in the labor market signs of improvement are already apparent. Laborers are beginning to recognize that the system of wages paid by the hour together with a shorter working time brings them disadvantage rather than advantage. The industrious and intelligent workman is quite aware that this deprives him of the chance of securing for himself a larger material gain in accordance with his superior ability. This explains why in many concerns it is just the workman who desires the re-introduction of piece-work. It may, therefore be expected that the old methods will shortly be re-adopted and lead to a considerable increase of production.

For the present, however, insufficient coal production is still a factor seriously arresting the industrial revival. The production of coal in the Saar district which formerly covered almost 7% of Germany's total output, has ceased to be of avail to that country. Furthermore, there were prolonged strikes in the remaining mining districts in spring of this year, followed in October by another strike, though shorter, in Upper Silesia, that brought about a great decrease in the production. Besides the amount of labor done in the coal mines has tremendously fallen off in consequence of the cutting down of the work shifts to 7½ hours and also on account of the fact that thousands of war prisoners, who were formerly occupied in the mines, are not employed any longer. Another factor is the migrating of workmen to other industries offering relatively better wages to them. Thus the first half year of 1919, when compared with the same period of the previous year, shows a decrease in the coal production of Germany (excluding Alsace-Lorraine) of 31.24 million tons. During the last few months, however, the production has decidedly improved.

The output of the mines worked by the Rhenish-Westphalian Coal Syndicate amounted

	in April	May	June	July
to	2.10	5.77	5.55	6.63 million tons

In upper Silesia too, the present daily output exceeds that before the last strike. This development may be valued as a symptom of improvement, although a much larger increase in production is requisite, if the coal famine is to be relieved. This will necessitate the recruiting of additional labor

forces. Until now it has not been possible to fill up all the gaps beaten in the ranks of labor, whilst moreover, dwelling houses have to be built for the new workers to be employed. Hence it appears in what vicious circle the whole economic life moves.

So, for instance, various building materials, especially cement and bricks, cannot be produced in sufficient quantities. Of cement about 1-10th only of what is required can be supplied. In the brick industry likewise only 1-10th of the brickyards are kept going for want of fuel. The need of building material in its turn checks the building power, which in addition is curtailed by the high cost of building. The conditions of traffic are similarly unfavorable. The scarcity of coal has also influenced the output of iron. Nevertheless the production of iron has been gradually increasing, as is shown by the following table (in 1000 tons):

	Pig Iron	Ingot Iron	Rolling Mill Products	Semi-manufactured Articles
1919				
May	525	603	459	48
June	527	643	441	60
July	575	796	555	67
August	569	740	537	68

The shortage of coal and iron further hinders the manufacturing of tools and engines, thereby restricting the repairing and constructing of rolling stock. Railway construction has been hampered, too, by a great decline in the production of labor. Consequently the railroad cars and locomotives sent to the shops for repair are returned with great delay, thus causing a shortage of freight cars to be used for the conveyance of coal.

VI.

However unfavorable the preceding figures may be, yet the increase of production, which can be noticed in the last few months, harbingers the beginning of improvement and, as stated above, the re-adoption of piece-work will largely contribute to a speedy progress of this upward movement.

The revival of foreign trade is of paramount importance for the economic and financial restoration of Germany. Germany needs large quantities of food in order to again make her population able to work and capable of production. Furthermore, an increased import of raw materials is indispensable for a resuscitation of her industries. This is the primary condition for the essential increase of exports, which until now have remained ominously behind the imports. Thus in July, 1919, imports aggregated in round numbers 1.3 million tons to a value of 2 billion marks, whereas only 0.9 million tons were exported to a value of about 564 million marks. When compared with the period from January to July of the previous year, figures are as follows:

	Imports		Exports	
	in 1000 tons	in million marks	in 1000 tons	in million marks
1919	3776	5421	4259	2642
1918	11940	4394	15400	2830

The above comparison gives an idea of the striking fact that until July of the current year the quantity of imports remained 8.2 million tons behind that in the corresponding period of the preceding year. Still their value was greater by over a thousand million marks. The same aspect is shown by the exports. Whereas in comparison to the previous year the quantity was smaller by 11.1 million tons, the difference in value amounted to only 188 million marks to the disadvantage of the current year. This striking difference in the quantity of imports and exports is to be explained by the changes that have taken place within a year. The exchange of goods, during the past year, still very lively between Germany and the countries then allied to her, probably

played a very important part in this connection. The fact that notwithstanding the extraordinary diminution of the quantity in the current year, the value of the imports was still by over a thousand millions more, whilst the value of the exports was only 188 million marks less, is to be accounted for chiefly by the depreciation which the German monetary standard has experienced in the course of the last year.

Apart from this one conclusion may be drawn from the figures, namely, that as already observed above the imports exceed the exports very considerably both in value and in quantity, the more so as the enormous illegitimate import of goods across the Rhine border, naturally not comprised by statistics, has not been included in these figures.

In this connection it has to be borne in mind that the development of the balance of trade in the near future will be unfavorably influenced by the fact that Germany's possession of foreign securities is more and more getting exhausted. The unfavorable condition created by the great surplus of imports against exports will, therefore, make itself all the more severely felt as the credits arising from the sale of foreign securities are decreasing more and more.

VII.

Yet all these factors may in due time be counterbalanced by other more favorable circumstances. Apart from the German's laboriousness it is his high technical ability which has gained for him great fame all over the world. The success attained is due to an extensive scientific training as well as to the indefatigable labor. The very compulsion arising from the economic and financial distress will most decidedly call forth material improvement.

For all that neither German industrial activity nor the development of German technical arts would enable the country to master the great difficulties, if not her geographic situation, which in a political respect has had many drawbacks for Germany, would procure her a great advantage now that the economic life of the whole of Europe must be necessarily restored to a sound condition. Under the present conditions, however, Germany being too badly weakened, both economically and financially, would not be able to make use of the opportunities offered to her by her central position. However, as the economic relations between the United States and Europe appear to call for a radical change, America in order to fulfil her mission of playing the leading part in the restoration of the economic life in Europe, had best start her activities from the center of Europe.

It is quite evident that Germany lends herself best to this purpose, because it is easier to supply the whole of Europe from Germany than from anywhere else, for German industrial activity and the high attainments of German technics can be best made use of for the solution of this great problem. Not only will the German people be rendered capable of willingly and gladly setting to work again, but at the same time it will be placed in a position to fulfil the conditions imposed upon it by the treaty of peace. There is no doubt but that the carrying out of the conditions of peace is a vital question for the majority of the European nations, and for this very reason it is largely in the United States direct interest that Germany as soon as possible should be placed in a position to once more reach the highest degree of her economic development.

In the second place it is—leaving apart the newly formed connecting link, Poland—Germany's neighborhood to Russia and, above all that, the exact knowledge of Russian conditions possessed by Germany, which the United States will be able to successfully avail themselves of, when it comes to the opening up of Russia. In fact this has been one of the American aims for a long time past.

Taking into consideration the huge wealth of Russia as regards products and treasures of the soil, it is evident that by means of co-operation possibilities may be created, through which the tremendous losses of the war can be made good to a considerable extent, if not completely, within a comparatively short space of time. Thus the carrying out of the conditions of peace would be made possible for Germany of course in so far as their fulfilment is at all reasonable. As stated above such a shaping of affairs is not only to the benefit of the European creditors of Germany, but would just as much redound to the advantage of the United States, as the Union has through the war become a world creditor to an extent hitherto unknown and is, therefore, highly interested in the financial recuperation of Europe.

VIII.

The assumption widely prevalent in America that Germany will in a short time recover from the blows of the war and will soon enter anew upon a flourishing period, takes no account of the actual facts. The losses Germany has suffered in consequence of the war are too enormous and the burdens she will have to bear in future are too heavy for her to regain her old position in the international market within a measurable distance of time. Even under the most favorable conditions the process of recovery and recuperation will take a number of decades. Her financial weakening alone will prevent Germany, especially in regard to America, from being able to come forward as a competitor of importance. The start which the United States have won is too considerable and their national resources are too rich for German competition ever to become again an important factor as far as America is concerned. Moreover, as the United States take part in the restoration of European economic life by securing a firm footing in Germany and there take part in the solution of the industrial problems, presenting themselves, this proceeding will offer the surest guarantee that the restoration of the economic and financial position of Germany will be principally to the benefit of America. This footing would naturally be attained by the investment of American capital in Germany. Consequently a restoration of Germany's economic life would in two ways be advantageous to the United States. First as regards the profits on the investment of capital, and secondly owing to the improvement of the German rate of exchange. On account of such a participation it would at the same time be possible to bring the economic development of Germany into harmony with the American economic policy.

Among the reasons speaking for a far-reaching support to be accorded to Germany, the political side needs to be considered as well. In Germany it will have to be decided whether the Bolshevik movement, emanating from Russia, is to be brought to a standstill or to spread further westward. It is in the interest of America that such a dissemination be prevented, as quite apart from a possible spreading of this movement to other continents, political revolutions of that sort would render the sale of American product in Europe still more difficult as already is the case now. In this connection the fact is of special significance that in Germany adherents to the communist idea are still comparatively few in number. The true cause of the labor movement rests upon a basis not at all idealistic, but eminently material. The whole of the population has suffered most severely under a blockade of five years, particularly the working masses in the industrial centers. The love for labor has been lost in consequence. The only means to improve the unsound conditions, prevalent in wide circles of the population, is to provide the people with food. If food is sufficiently supplied, the danger of an extension of the communist movement, aiming at the destruction of

the existing order of society, will not only be neutralized, but the diligence by which the German worker has at all times been characterized, will be displayed once more again.

In spite of the present unfavorable financial and economic situation of Germany, the United States for various reasons have a very far-reaching interest in the restoration of German economic life. Neither the American government nor American financial circles have any doubt but that the United States will be compelled to invest an extensive amount of capital in Europe, if they wish their economic prosperity secured.

To conclude, the economic restoration of Germany is a question of vital concernment for the whole of Europe and of the greatest importance to the United States. The economic healing process of Europe must accordingly proceed from Germany, since only in this way the most difficult financial problem with which the world has ever been confronted, can be solved. The financial risk the United States undertake by investing their capital in Germany must be considered from this point of view. It appears only slight in comparison to the many advantages which a financial policy of that kind holds out.

Railway Earnings.

As a result of the coal strike the earnings of the railroads in the month of November were extremely unfavorable. The Eastern railroads were especially hard hit as they failed to earn operating expenses and taxes by over \$4,000,000. For the eleven months ended November 30, 1919, Class 1 railroads earned only 61 per cent of their governmental rental. The Western district roads made relatively the best showing, earning 69 per cent of the rental, while the Southern district roads earned 44 per cent, and the Eastern, 49½ per cent. As it is expected that the December figures will not be good, it seems probable that the Railroad Administration will face a deficit of at least \$400,000,000 for the year 1919, as compared with a deficit of \$235,000,000 in 1918.

The steady decline in the earning power of the railway industry is strikingly set forth in the following comparison which shows that, notwithstanding a continued increase in operating revenues, net operating income has steadily diminished.

	Total Operating Revenues	Net Operating Income
11 months ended Nov. 30, 1917..	\$3,713,000,000	\$910,000,000
11 months ended Nov. 30, 1918..	4,473,000,000	662,000,000
11 months ended Nov. 30, 1919..	4,731,000,000	503,000,000

The increase in operating revenues has been 27 per cent, the decrease in operating income has been 53 per cent. The seriousness of the situation is the more apparent when it is realized that 108 out of 165 Class 1 roads are not earning their fixed charges.

A few companies during 1919 have been able to make a better showing than they did in 1918. For example, the Pere Marquette in 1918 earned 91 per cent of its standard return, and for eleven months of 1919 earned 191 per cent. The Michigan Central earned 158 per cent in 1918 and 212 per cent in 1919. On the other hand, the Northern Pacific, which earned 91 per cent of its stand-

ard return in 1918, earned only 62 per cent in 1919; and the Southern Railway has dropped from 158 to 52 per cent.

The Director General recently called attention to certain special conditions which have affected the earnings of the roads in the last two years. During 1918 war considerations were paramount. In the first six months of 1919 there was a sudden and abnormally heavy slump in traffic during which large deficits occurred. The next four months were much more favorable and the results were such that a small increase in rates would have avoided any deficit to the Administration; but in November and December a very severe falling off in traffic was accompanied by enormously increased expenses of operation.

A member of the Interstate Commerce Commission has issued a public statement to the effect that if the railroads are granted a general increase of 25 per cent, which he understands will be sought, such increase will cost the consumers of the United States something over four billion dollars and increase the family budget by about \$215 a year. The reliability of these figures may well be doubted. Mr. Julius Kruttschnitt, President of the Southern Pacific Company, has prepared statistics indicating conclusively that increased freight rates do not account for the great increases in the cost of living. In 1914 the average value of freight carried by the railroads was \$56 a ton and the money spent for transporting the average ton was \$2. In 1919 the average ton of freight was worth \$119 and the cost of its transportation was \$2.80. The cost of the commodity ton thus increased \$63, out of which the railroad received only eighty cents additional. In other words, only 1.3 cents out of every dollar of increase in the value of commodities in 1919 was caused by increased freight charges and the responsibility for the remaining 98.7 cents out of every dollar must be sought elsewhere. Relatively, freight rates declined, since 3.6 per cent of the total cost in 1914 was consumed by transportation, whereas in 1919 only 2.4 per cent was so spent.

In any event, since the principle is generally accepted in this country that the railroads should be supported through rates rather than by contributions from the national treasury, an increase in rates cannot be avoided.

Pending Railroad Legislation.

The joint conference committee which is considering the diverse railroad bills which passed the Senate and House last year, is composed of the following: Senators Cummins, Poindexter, Kellogg, Pomerene and Robinson, and Representatives Esch, Hamilton, Winslow, Sims and Barkley. Up to the time of writing, the conference has tentatively agreed on the continuance of the present standard return for a period of six months after the termination of Federal control, and on certain minor points, but no agree-

ment has been reached in regard to the contentious rate and labor provisions.

Unless the conferees produce a bill which affirmatively restores credit, all other provisions are inconsequential. Since Federal control presumptively will terminate at the end of the current month an extension of the standard return is absolutely imperative; but considerably more financial protection is required. In our judgment, the following additional safeguards are necessary to save railroad credit from collapse.

- (1) Provide a new Revolving Fund of from 750 million to a billion dollars, to take care of obligations maturing in 1920, and to finance essential additions and betterments. The proposed \$300,000,000 is wholly inadequate, for a single large system will require nearly \$150,000,000 this year.
- (2) Fund for a term of years the indebtedness which the carriers owe the Government for additions, betterments and extensions, and provide each road with working capital on the basis of at least one month's operating expenses—an amount estimated at \$353,000,000.
- (3) Establish a rule for rate making that will be an assurance to the investor and a guide to the Interstate Commerce Commission.

The necessity for such a rule has been stressed by Commissioner Clark and more recently by Judge Prouty, both of whom have had many years of experience in applying the existing law. Director General Hines also believes it essential. In an address before the Association of the Bar of the City of New York, on January 7th, in discussing the rate question, he spoke in part as follows:

"I believe there must be a definite standard by which the reasonableness of the general rate level can be measured. In the past there has been no appreciable standard. Plausible arguments could be made against any increase that was sought under any conditions. The rate-making body had to take all the responsibility and odium of creating a standard as well as applying it. In my opinion Congress itself should establish a general but workable standard and leave to the rate-making body the application of this standard according to the facts."

The lack of a standard is doubtless responsible for most of the financial troubles of the railroads in the past. In its decision in the Eastern Rate Case of July, 1914, the Interstate Commerce Commission held that the net operating income, which was 5.36 per cent on the investment, was less than that demanded in the public interest and inadequate as a credit base. Yet, the railroads, as a whole, had not earned as much as 5.36 per cent in any year between 1911 and 1916; while the compensation payable during Federal control (being the average earnings of 1915, 1916, 1917) is equal to a return on the property investment of only 5.22 per cent. The actual earnings of the roads today are about 3 per cent.

The deadlock in the conference on the rule for rate-making arises from the fact that the Senators are standing out for a fixed percentage minimum return with a division of the profits in excess of 6 per cent, to which the House conferees are un-

derstood to be opposed. That Mr. Hines sympathizes with the Senate bill is evident from his New York address in which he alluded to this question as follows:

"I believe that there will not be a prompt and liberal treatment of rate questions until profits clearly in excess of a fair return are appropriated in part to the public interest."

The railroad problem before Congress is of such importance to the welfare of the country that it would be far better to enact an emergency measure extending Federal control or the Federal guaranties beyond March 1st than to pass hastily legislation that is clearly inadequate.

Needed Facilities.

The need for facilities and for conditions which will make railway investments attractive to investors are very well set forth below:

"The railroads of this country must, in the immediate future, be very largely extended and improved; additional facilities must be provided to meet the increased demands which will be made.

"This will require the outlay of vast sums of capital; and this capital must come mainly, not from the earnings of the railroads, from the investing public. We can provide by legislation the sort of cars which a railroad shall use and the rates which it shall impose; we cannot by legislation force one single dollar of private capital into railroad investment against its will.

"Capital will seek investment in this field for exactly the same reason that it will in any other; namely, upon the expectation of making a profit out of the investment. It is not necessary that the return should be large; but it is necessary that it should be certain; that the people who put their money into this form of investment shall feel confident of fair and honest treatment.

"A want of adequate railway facilities would mean industrial paralysis. Unless they are provided when needed the government will find itself confronted with a demand from all sources—from the merchant, the manufacturer, the farmer—which will force it to meet in some way the necessities of the occasion; and this can only be by either furnishing the capital or providing the railroad itself.

"If we are ever brought face to face with the proposition of government ownership, it will not be by the imposition of excessive charges, for we can deal with that situation, but by the impossibility of obtaining adequate facilities.

"The possibility of such an emergency is by no means fanciful."

It might be easily imagined that the foregoing statement was written in 1920. As a matter of fact, it is an extract from an address made in 1909 at Yale University by Judge Prouty, then a member of the Interstate Commerce Commission. The inadequacy of railway facilities is far more serious today than it was ten years ago. The Cleveland Chamber of Commerce telegraphed to the Ohio Senators at Washington recently that "industrial production is being curtailed here as a result of the shortage of box cars." The assistance of the Senators was asked in order that the supply might be doubled. The *Iron Age* of January 22nd, writes: "The car shortage, which has for weeks been a checking factor in the movement of fuel to iron and steel plants, has now, temporarily at

least, displaced low unit labor output as the chief obstacle in accelerating production. Slow headway is being made in shipping iron from stockyard piles, and finished products are beginning to clog up rolling mills." Similar complaints can be found all over the country, but they should surprise no one familiar with the facts.

Additions and Betterments.

During the ten years ended in 1915, the increase in the freight traffic of the country was 61 per cent, while the increase in the number of freight cars in service was 36 per cent. Since 1915 there has been a further increase in freight traffic of 57 per cent, and an increase in freight cars available of only 5 per cent. Since 1915 the increase in passenger business has been 32 per cent and there has been practically no increase in the number of passenger cars. In spite of the enormous traffic to be moved the number of locomotives in service today remains practically unchanged since 1915.

Owing to the difficulty of raising money, expenditures for additions and betterments on the railroads fell from \$808,000,000 in 1911 to \$268,000,000 in 1916. The Division of Capital Expenditures of the Railroad Administration has authorized since January, 1918, \$724,000,000 for additions, betterments and extensions to the railway plant and \$370,000,000 for equipment. The equipment ordered has been put in service, but the program of additions and betterments has been interrupted and only \$474,000,000 was expended up to September 30th last.

The *Railway Age*, in its issue of January 2nd, has made a very careful survey of the deficiencies of the railroads, and estimates that a total investment of \$6,010,000,000 is required in the next three years to provide the facilities which the country needs. Included in this program are 13,000 locomotives, 712,000 freight cars, 24,500 passenger cars and 30,000 miles of sidings and yard tracks, together with improved shop facilities, new terminals, etc.

Vital as these demands are we do not think that the money can be secured in any such quantity. Railroad credit has been so seriously hurt that, even with the most favorable legislation, it will be sometime before the investor will again place his funds in railroad securities as unhesitatingly as formerly. Then there is the extremely grave problem arising from the present income tax law which makes it improbable that the large private investor will place his money in taxable securities, so that one of the very important reservoirs of capital is definitely closed to railroad borrowers.

Cost of Capital.

One of the railroads which was reorganized about 1898 issued at that time \$126,000,000 of 3½ per cent bonds, all of which mature within the next five years. It will be impossible for this

railroad company to refinance at any such low rate, and this situation is true of all railroads which have low interest rate bonds maturing in the next few years. The steady advance in the cost of capital to a strong railroad like the Pennsylvania is illustrated in the following table, which shows the prices at which new offerings of its bonds have been sold to the public during the past ten years.

	Date of Issue	Price	Yield
Consol Mortgage 4s	April, 1908	96	4.25%
Consol Mortgage 4½s	January, 1915	103½	4.30%
General Mortgage 4½s	May, 1915	98½	4.58%
General Mortgage 4½s	April, 1917	97½	4.65%
General Mortgage 5s	December, 1918	99½	5.05%

The General Mortgage 5s are now selling on about a 5.65 per cent basis.

Equipment trust obligations have always been a popular type of investment, but here again, the railroads are forced to pay more for the equipment as well as for the money. For example, before the war cars could be purchased at \$1,000 each and the money borrowed at 4½ per cent. Today, the same cars are costing \$3,000 each and the Government is taking 6 per cent equipment obligations from the companies in reimbursement. Because of the rise in the interest rate of 33½ per cent and of 200 per cent in the price of the commodity, there is a 300 per cent increase in annual interest charges alone.

Valuations.

Oral arguments were presented before the Interstate Commerce Commission on January 7th upon the question of the final value which should be found for the railroads of the country. Up to the present date the Commission has not yet found a final figure for the value of any railroad. In the view of Judge Prouty, Chief of the Division of Valuation, the final value of a railroad should be the cost of reproduction less depreciation, plus appreciation and "going concern" value. This is the first time that it has been officially suggested that allowance be made for "going concern" value. Judge Prouty's recommendation to the Commission was that 7 or 8 per cent of the cost of reproduction, exclusive of land and equipment, should be added to the value as found in the inventories to cover this item.

The Supreme Court has recognized the justice of allowance for going concern value in more than one case, the following being quoted from a recent opinion:

"That there is an element of value in an assembled and established plant doing business and earning money over one not thus advanced is self-evident. This element of value is a property right and should be considered in determining the value of the property upon which the owner has a right to make a fair return when the same is privately owned although dedicated to the public use."

That consideration must be given not only to the bare bones of the property, but also to its business seems to be in accord with common sense because it is unquestionably true that property is

worth very much more after it has developed a business than when it is just ready to commence operations.

New York, New Haven and Hartford.

We have on previous occasions referred to the results of some of the tentative valuations reported by the Commission. The work of the Division of Valuation is proceeding rapidly and it is probable that before this year is out, tentative valuations will have been published for many of the leading systems. A press despatch from Boston is authority for the statement that a tentative valuation of the New York, New Haven & Hartford, as of June 30, 1914, with inventories as of June 30, 1915, shows a cost of reproduction new of \$248,596,757. No consideration is given in these figures to values of land, which will be reported later. The cost of reproduction less depreciation is stated as \$192,147,034. The annual report of the railroad company for the year ended June 30, 1915, gives net book cost of road and equipment at \$191,762,979. It will thus be noticed that, even with the land values omitted, which, in the case of a road like the New Haven, are bound to be of great importance, the property investment account is less than the Government's figures of depreciated value. For the entire New Haven System it is reported that the cost of reproduction new is \$345,000,000 and the cost of reproduction less depreciation, \$272,000,000. Of the \$157,000,000 New Haven stock outstanding, \$146,200,000, or 82 per cent, has been sold to stockholders since 1900 at prices realizing premiums in excess of \$19,000,000.

The old delusion that the property investment accounts of the railroads are grossly overstated has unquestionably hampered the work of the Conference Committee in Washington who have been trying to harmonize the Cummins and Esch Bills. In an address delivered in Detroit, on January 15th, Mr. Samuel Rea, President of the Pennsylvania Railroad System, said: "Can there be any doubt today that the real property investment for all the railroads exceeds their original cost or their capitalized cost, and that the property investment as stated is materially below the present actual value? I have none." Mr. Rea proceeds to call attention to the fact that even if the capitalization was overstated it should not be forgotten that the gross investment aggregates \$24,281,000,000, and the securities, \$21,249,000,000, so that the railroads' property investment exceeds by over \$3,000,000,000 the issued railroad capital.

Bond Market.

Following the general selling during the close of the year to establish tax losses, the bond market, relieved of this pressure, showed signs of recovery during the early days of January and higher prices were recorded in numerous issues by the end of the first week. Liberty and Victory bonds shared in this advance in a substantial

way and the 3½ per cent issue again sold at a premium. Foreign Governments and utilities showed improvement and rails registered the largest gain. Second grade railroad issues such as Baltimore & Ohio and St. Pauls advanced from three to five points. The volume of bond business, however, contracted perceptibly and after this early improvement prices declined and the market developed a waiting attitude until the middle of the month, when the new Belgian Loan was offered on a 7 per cent basis, with an attractive conversion which promises a substantial profit in exchange. The success of this issue resulted in a number of new offerings but the general market continued extremely quiet and although dealers have reported a wide distribution of the new issues to private investors the volume of business remained comparatively small. This is due to the fact that the institutions have not been in the market because of tight money and the advance in rates of the Federal Reserve Banks, and the large private investors are restricting their purchases to tax exempt municipals, with the result that new municipal issues were well absorbed though prices during the closing days declined. The combined average of forty active corporate issues as compiled by the Wall Street Journal on January 24 was 79.37 compared with 78.66 on December 24, and 85.41 on January 24, 1919.

Government and Liberty Issues.

The prices of all the Liberty issues showed an average advance of 1½ points during the first week of the month. The market later reacted, and the middle of the month found this advance entirely absorbed and considerable liquidation by large institutions was reported. National banks have been in the market for large blocks of Government 2s of 1930 to meet the currency demand and as a result this issue sold as high as 100¼, its record quotation since the passage of the Federal Reserve Act. At present prices the Third Liberty 4½s yield about 5.20 per cent and the Fourth 4½s, 4.95 per cent, while the Victory 4½s yield about 5.15 per cent.

Municipal Market.

At the close of 1919 municipal bonds were selling at lower prices than at any time during the year and materially below the prevailing figures at the close of 1918. In this connection it is interesting to note that the average market value expressed in "basis" of the bonds of twenty large cities declined from a yield of 3.92 per cent in January, 1917, to a yield of 4.56 per cent in January, 1920. Among the important offerings of the month was a total of \$14,247,000 City of Chicago Bonds on a 4¾ per cent basis, of which \$11,900,000 were direct city obligations bearing 4 per cent interest, with an average maturity of eight years, and \$2,347,000 were Sanitary District 4 per cent Bonds with an average maturity of twelve and seven-eighths years; \$5,000,000 State of Louisi-

ana Port Commission 5 per cent Bonds on a 5 per cent basis; \$4,800,000 Allegheny County, Pa., 4½ per cent Serial Bonds on a 4½ per cent basis; \$4,340,000 Miami Conservancy District of Ohio 5½ per cent Bonds on a 5 per cent basis. The City of Philadelphia sold \$3,000,000 4½ per cent Bonds, of which \$2,000,000 were taken by the City of Philadelphia Sinking Funds, the balance being offered on a 4.20 per cent basis.

Offerings of Canadian bonds in this market continued in volume as in the preceding month, \$2,000,000 City of Toronto 4½s being offered on a 5.70 per cent basis, while the Provinces of Ontario, Manitoba, Saskatchewan and British Columbia offered a total of \$12,950,000 at prices ranging from a 6.50 per cent to a 6.60 per cent basis.

Dealers who have purchased these new issues which were offered during the month report fairly prompt sales and a continued demand, although prices have eased off somewhat; odd lots in the trading market can now be obtained at considerably lower prices than were ruling earlier in the month. There are substantial amounts of new municipal issues proposed for the coming months but it is expected that fairly firm prices will prevail as long as present income tax rates make the tax exempt issues attractive to investors with large incomes. New York City issues have been ruling on about a 4½ per cent basis, with New York State bonds on a 4 per cent basis.

Foreign Government and Corporate Issues.

The outstanding offering of the month was \$25,000,000 Kingdom of Belgium 6 per cent External Gold Notes maturing in one or five years at the option of the purchaser. These notes are convertible into Belgian francs at the rate of 11 francs to the dollar. Upon conversion above this rate the holder is to receive one-half the profit, the balance being retained for the account of the Belgian Government. Should exchange return to par—5.18½ francs per dollar—the holder of a thousand-dollar note would receive \$1,561.50. These notes were offered by a nation-wide syndicate and it is reported that subscriptions were received for about twice the amount offered. The Consolidated Gas Company of New York offered \$25,000,000 Five-Year 7 per cent Convertible Gold Bonds at par and interest. There were also offered \$15,000,000 Kennecott Copper Corp. Ten-year 7 per cent Secured Bonds yielding 7½ per cent, \$12,500,000 Philadelphia Electric Two-year 6 per cent Notes yielding 7½ per cent, and \$7,500,000 United Gas Improvement One-year 6 per cent Notes yielding 7 per cent.

Among the larger preferred stock issues were \$12,000,000 Union Tank Car Company 7 per cent Preferred at par and \$10,000,000 R. J. Reynolds Tobacco Company 7 per cent Preferred at par. The General Motors Corporation is offering to

holders of the 6 per cent Debenture and Preferred Stocks a new issue of 7 per cent Debenture Stocks at par with the right to subscribe to double the amount of their present holdings and present their 6 per cent Debenture Stock at par in payment for 50 per cent of their subscription. The market on preferred stocks as a whole was somewhat less active and the major portion of the new corporate financing for the month took the form of fixed maturity obligations.

New Financing During 1919.

During 1919 new financing by American states and municipalities is reported at over \$750,000,000 compared with about \$262,000,000 for 1918, while the annual issuance of municipal bonds in previous years ranged from \$350,000,000 to \$500,000,000. Foreign dollar loans issued in the United States during 1919 were about \$610,000,000, the only issues during 1918 being a total of about \$6,600,000 provincial, corporation and railroad loans of Canada. Public utility financing is reported at over \$590,000,000 compared with \$451,000,000 in 1918. Industrial financing was reported at over \$2,588,000,000 as compared with \$927,000,000 in 1918. Railroad financing was reported at over \$332,000,000 compared with \$237,000,000 in 1918. It is difficult to obtain accurate information concerning the issuance of these various classes of securities but the above estimates, which have appeared in the Journal of Commerce and the Wall Street Journal, afford an index from which we can gain an approximate idea of the volume of flotations, which in 1919 were estimated at \$4,870,000,000, compared with \$1,883,600,000 in 1918.

The Food Outlook.

Nothing would do so much to relax the tension in the industrial situation as a good all-around crop of food-stuffs this coming season. The reduction of about 25 per cent in acreage of winter wheat, together with reports that much of the crop has been uncovered during the cold weather and that it did not enter the winter in the best condition, is not reassuring as to the supply of that grain. It is true that the acreage last year was larger than usual, under the stimulus of the government guarantee, but the present area is below the ten-year average. The reduction may be made good by the acreage in spring wheat, and it is to be hoped that this will be the case.

The United States Grain Corporation reports that wheat receipts on primary markets from June 27, 1919 to January 2, 1920, aggregated 653,682,000 bushels, and estimate the remaining amount in the country of 251,069,000 bushels. Exports in that time were 33,000,000 bushels lower than in the corresponding period of last year. Mr. Barnes predicts a considerable carryover into the new crop year, but

other well-informed people think there will be no carry-over if Europe can find the means of making the purchases it would like to. From present appearances none of the billion dollars provided to cover the possible loss to the Treasury under the wheat guaranty will be required.

The total exports by weight of pork products (bacon, ham, shoulders and lard) dressed beef and dairy products for eleven months of the year 1919 are shown below.

	Pork Products (Pounds)	Dressed Beef (Pounds)	Dairy Products (Pounds)
January	193,696,000	17,436,000	45,241,000
February	233,097,000	13,730,000	53,127,000
March	334,037,000	14,651,000	52,832,000
April	337,940,000	21,640,000	102,575,000
May	174,472,000	14,873,000	77,147,000
June	383,624,000	15,212,000	115,647,000
July	233,306,000	8,681,000	65,146,000
August	173,268,000	8,075,000	68,207,000
September	112,349,000	7,286,000	63,946,000
October	110,569,000	31,178,000	91,719,000
November	124,238,000	15,694,000	70,703,000
Total	2,410,596,000	168,456,000	806,290,000

*Of this amount 30,797,000 pounds cover butter exports and 775,493,000 pounds cover condensed milk exports.

Food Drafts.

A new plan making it possible for those in this country to help supply foods to relatives or friends they may have in the section of Europe most affected by the food shortage, has been announced by the American Relief Administration of which Mr. Herbert Hoover is chairman. The plan, which comprehends the purchase of "Food Drafts" in this country, which will be honored, not by cash but by actual food when presented in certain European cities, seems eminently sound in view of conditions generally. Mr. Hoover, in a letter to this bank, outlines the plan as follows:

American Relief Warehouses, established in Warsaw, Hamburg, Vienna, Budapest and Prague, are now being stocked with the following commodities: Flour, bacon, beans, canned milk, corned beef, lard and cotton seed oil. We have arranged with the American Bankers' Association to circularize immediately their twenty-two thousand banks in America, requesting the assistance of each bank in selling Food Drafts in denominations of ten and fifty dollars to customers desiring to help individuals and friends in Poland, Germany, Austria, Hungary, and Czecho-Slovakia. The purchaser receives a Food Draft to be mailed to the person he desires to assist in one of the above named countries, who will be entitled to receive upon presentation of this Food Draft at nearest central warehouse the food designated on the Draft of an equivalent value to the cost of the Food Drafts. There are two ten and two fifty dollar Food Drafts, designated to meet Christian requirements and Jewish requirements. This plan has been presented to and approved by the State Department, Federal Reserve Board and the United States Treasury, and also by each of the European countries concerned. The European Governments

will hold all contents of American Relief Warehouses free of requisition and will assist in transportation and entry of all foods. Should any profit accrue from the operations, it will be turned over to the Children's Fund.

It is very desirable that bankers generally should co-operate in making the "Food Draft" plan possible.

Cooperation Among Farmers.

The national development of co-operative effort among producers is exemplified in the gradual spread of such organizations in the northwest. The Northwestern National Bank, of Minneapolis, in a recent number of its monthly review gave some interesting figures upon this subject. It says that Minnesota leads all the states in co-operative associations among the farmers, and that the volume of business handled by them is now running over \$200,000,000 per year. It estimates that there are 4,000 farmers' associations,—business, social and educational—in Minnesota, 3,000 in Wisconsin and 1,000 in Montana.

The article says:

Referring only to the strictly business organizations in Minnesota, there were 614 co-operative creameries in 1914 when the last comprehensive report was made, which was not far from double the number in any other state, and nearly one-third the total number in the United States. Co-operative creameries constituted 72 per cent of all the creameries in Minnesota, and it was found that 42 per cent of all the farmers of the state were patrons of these creameries. Furthermore it was found that one farmer out of every five in the state was a member of a farmers' elevator company. The formation of live stock shipping associations was the most important development in co-operative marketing in 1914, and in this development Minnesota also was by far the leading state in the Union. This movement began with us in 1908 and, especially since 1911, has spread rapidly. In 1914, 12 per cent of the value of all live stock marketed in this state was sold by these get-together selling associations. There is every reason to believe that this percentage has been much increased during the past five years, since the shipping associations which numbered 115 in 1914 have now grown to approximately 450.

The increase in the number of these mutual business organizations in Minnesota is shown in the following table, some of the figures being estimated, but considered nevertheless to be quite accurate, erring, if at all, on the conservative side:

	1914	1919
Creameries	614	622
Elevators	270	296
Stock Shipping Associations.....	115	450
Stores	120	102
Fire Insurance Companies.....	154	161
Telephone Companies	600	950
Cheese Factories	34	36
Potato Warehouses	20	40
Miscellaneous	86	200
	2013	2857

The number of miscellaneous associations is remarkable, and shows that farmers are branching out rapidly in the less cultivated fields of co-operative business. It will be noticed that the only decrease to be dis-

cerned in this list occurs in the number of co-operative stores. The reason that the business of the purchase and sale of miscellaneous supplies by farmers does not always thrive is doubtless because of the lack of skilled administration. Merchandising is a specialized business requiring training and adaptability to be successful, just as these essentials are required in banking or farming.

Many farmers' marketing associations, however, secure wholesale supplies along a few broad lines for distribution to members of the organizations, and this without doubt often to the detriment of the business of local dealers. In a recent address made by the managing director of the Agricultural Publishers' Association at a meeting of the National Implement and Vehicle Association, it was stated that in Iowa there were something like 400 co-operative elevator companies, a goodly number of which were handling merchandise in considerable quantities. "They are business organizations," says Mr. Frank B. White, "and whether we like it or not, they are with us and cannot be brushed aside easily. We must recognize them as a factor in Iowa business." 362 of these Iowa elevator companies, according to the figures presented by Mr. White, are distributors of coal; 291 are dealers in feed; 234 in twine; 209, salt; 206, seeds; 205, posts; many of them handle gates, wire, flour, cement, lumber, brick—and so forth to a few dealing in automobile accessories, sacks, cupolas, clothing. "The farmer and business man must like each other," the speaker asserted in a plea for better co-operation and understanding, "and unless they do like each other they will not do business together pleasantly or profitably, much less work together for the benefit of the whole community."

Professor A. W. McKerrow, of the University of Minnesota, who is Secretary of the Minnesota-Central Co-operative Live-Stock Shippers' Association, in a recent statement said that in 1918 seventy per cent. of the live-stock shipped by Minnesota farmers to the South St. Paul stock yards were sold through the co-operative association, and he estimates that the savings to the farmers aggregated \$2,500,000.

A Normal Development.

This is evidently a normal development, and while some features of it may not be welcomed by dealers and agencies for whom it brings new competition, intelligent business-men recognize that it is a perfectly legitimate movement, and will succeed or fail on the results which are produced. If the farmers get better returns or are better satisfied by marketing through their own organizations, they have reason enough for following the policy. Such a development is a matter of business, in no way related to politics, involving no controversies, and meeting with no opposition except such as may arise naturally from business competition. The latter is not undesirable, for the competitive test is the best spur to efficiency. The community as a whole is interested in the perfection of business methods.

These mutual, or joint stock, organizations show the course of sound development, as compared with the political organizations which seek to use the credit of the state for carrying on all sorts of enterprises. In the former, the

thrifty, substantial members of the community, who actually contribute in capital or business to the success of the associations, are in control of them. There is no limit to development under these conditions, for it will go on cautiously and no faster or farther than as its success is demonstrated. On the other hand, where the political organization is used, political methods instead of business methods prevail. The management is in hands of political officials and good talkers, elected by popular vote, and the capital is provided by taxation. Under these conditions the recent developments in the banking situation in North Dakota are an example of the results to be expected.

Cooperative Purchasing Organizations.

The labor organizations are showing a new interest in the possibility of reducing living costs by means of cooperative stores and a system of distribution for agricultural products direct from the farmers to consumers. The statement of principles and purposes recently issued by the Federation of Labor mentioned the Rochdale cooperative stores of England as a model enterprise and the officials of the railway orders have indicated that steps would be taken for the establishment of an organization in which wage-earners and farmers would be interested to their mutual advantage.

Every constructive movement of this kind is to be encouraged in cautious development. There is no question that the cost of handling farm products between producer and consumer can be greatly reduced and much waste eliminated by proper organization, but it cannot be done unless the consumer takes an interest in saving and is willing to take some pains to accomplish it. The experience of the Interborough Company, of New York, which tried the experiment of selling groceries to its employees at net cost, bearing the expense of conducting the stores from its own treasury, illustrates the difficulties. That was a well-meant effort on the part of an employer but it failed. Perhaps stores conducted by the labor organizations would fare better; by all means let them be tried. They will either be a success and save money to the consumer or they will demonstrate that the middleman renders a service which is indispensable.

The less of mystery, ignorance and misrepresentation there is in the business world the better. If the farmers and labor organizations wish to join in any business operations for mutual benefit the way is open for them to do so, and if they can serve themselves and the community more economically than is being done under existing methods they will have made a demonstration of great public value. If they believe that they are being exploited this is the logical thing to do. Society

is always seeking the most economical methods for satisfying its wants, and every new achievement is to be welcomed.

Silver.

The silver market has continued to fluctuate violently, ranging from 1.30 to \$1.39 per ounce, although probably few sales have been made at the latter figure. This is for the newly mined silver. The Treasury has sold in all \$10,000,000 from the general fund for the China exchanges. The demand from that quarter remains strong, with no prospect as yet of falling away.

The bureau of the Mint and Geological Survey estimate the silver production of the United States in 1919 at 55,285,000 fine ounces, against 67,800,000 ounces in 1918. The decline was surprising in view of the higher price, but most of the silver produced in the United States is a by-product from copper and lead ore, the output of which was lower.

Handy & Harmon, silver brokers, estimate the world's production and distribution of silver in 1919 as follows:

PRODUCTION.

	Ounces
United States	55,000,000
Mexico	75,000,000
Canada	14,000,000
South America, Central America and West Indies	19,000,000
Europe	7,000,000
Australia	10,000,000
Asia and Africa	10,000,000
	190,000,000

DISTRIBUTION.

	Ounces
Home consumption in the Arts	25,000,000
United States Government purchases	4,000,000
Mexican Government purchases	3,000,000
England and Continental requirements	25,000,000
Shipments to India	39,000,000
Shipments to China and the Far East	65,000,000
Origin from various sources, destination unknown	29,000,000
	190,000,000

As to the future little can be confidently predicted except that so long as the balance of trade is in favor of Asia in the present volume, the demand for silver will be sustained. Prices have risen in China and in the ports wages have risen and more silver is required for the currency. There has been a large movement of Chinese coin into Manchuria to take the place of Russian paper money.

Second Pan-American Conference.

The Second Pan-American Financial Conference, which was held in Washington January 19-24, brought together a distinguished body of men representing nearly all of the countries of this hemisphere. In several instances delegations were headed by public ministers of finance, and as a rule the delegates

were men of leading importance in their countries. The visit of these influential gentlemen to the United States is an event of the first importance, and good results will certainly flow from it. All of the countries to the South of us have great possibilities of development and afford inviting fields for investment. Naturally in view of conditions in Europe they are looking toward the United States, and the leaders in finance in this country are sympathetic and interested. Investments, however, can be made only as capital accumulations are available and the demands upon the capital fund at present are larger than can be met. The whole world now is feeling the loss of the capital which was expended upon the war. All countries are behind with development work, the United States included. Europe is sorely needing America's help in reconstruction, and its wants are probably more pressing than any other. It is only a question of time, however, until the flow of capital southward from the United States will be largely increased.

Branches of The National Bank.

This bank opened four new foreign branches during the month of January. The banking houses at Bogota and Barranquilla, Colombia, were opened the first day of the year. That at Cape Town, South Africa, was opened January 15, and is the first American bank to be established in South Africa. The Antwerp, Belgium, branch of the bank was opened January 21.

The National City Bank now has a total of 51 branches; the International Banking Corporation (owned by the City Bank), has 28 branches.

Discount Rates Approved by Federal Reserve Board up to January 29, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including member banks' 15-day collateral notes) secured by				Bankers' acceptances discounted for member banks	Trade acceptances maturing within 90 days	Agricultural and live stock paper maturing 91 to 180 days
	Treasury certificates of indebtedness	Liberty bonds and Victory notes	Other bills secured and unsecured				
Boston	4¾	5¾	6	5	6	6	
New York	4¾	5¾	6	5	6	6	
Philadelphia	4¾	5¾	6	5	6	6	
Cleveland	4¾	5¾	6	5	6	6	
Richmond	4¾	5¾	6	5	6	6	
Atlanta	4¾	5¾	6	5	6	6	
Chicago	4¾	5¾	6	5	6	6	
St. Louis	4¾	5¾	6	5	6	6	
Minneapolis	4¾	5¾	6	5	5¾	6	
Kansas City	4¾	5¾	6	5	6	6	
Dallas	4½	5	5	5	5	5¾	
San Francisco	4¾	5¾	6	5	6	6	

Note—Rate on paper secured by War Finance Corporation bonds 1 per cent higher than the rate on commercial paper shown in column 3.

THE NATIONAL CITY BANK OF NEW YORK

ESTABLISHED 1812

THE NATIONAL CITY BANK OF NEW YORK

Capital, Surplus and Undivided Profits . . . \$ 80,000,000
Total Resources . . . 1,039,000,000

THE TRUST DEPARTMENT OF THE BANK ACTS AS

Trustee of Individual
and Corporate Trusts
Executor
Assignee
Administrator

Registrar of Stocks
and Bonds
Receiver
Committee
Guardian of Estates



The National City Bank Building
55 Wall Street

THE Trust Department is authorized to act in any fiduciary capacity in which State Banks or Trust Companies in New York State are permitted to act.

The substantial amount of the capital, surplus and undivided profits of the bank insures ample protection to anyone entrusting fiduciary business to it.

The Trust Department is governed by the same sound policies under which the Bank has been operated for more than a century.

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